

**Karoo Hoogland Municipality**  
**Notes to the Financial Statements for the year ended 30 June 2014**

|  | 2014<br>R        | 2013<br>R        |
|--|------------------|------------------|
| <b>37.3 Fruitless and wasteful expenditure</b>             |                  |                  |
| Reconciliation of fruitless and wasteful expenditure:      |                  |                  |
| Opening balance  | 1 140 295        |                  |
| Fruitless and wasteful expenditure current year            |                  | 1 140 295        |
| Written off by council                                     | -                | -                |
| Transfer to receivables for recovery                       | -                | -                |
| Fruitless and wasteful expenditure awaiting further action | <u>1 140 295</u> | <u>1 140 295</u> |

| Incident  | Disciplinary steps / criminal proceedings |
|---|---|
| Legal costs and other expenditure incurred in lost legal cases. | None                                      |

**37.4 Irregular expenditure**

|  |                |          |
|--|----------------|----------|
| Reconciliation of irregular expenditure:                 |                |          |
| Opening balance  | -              | -        |
| Irregular expenditure current year                       | -              | -        |
| Expenditure incurred without obtaining 3 quotes          | 243 758        |          |
| Awards made without obtaining tax clearance certificates |                |          |
| Condoned or written off by Council                       | -              | -        |
| Transfer to receivables for recovery                     | -              | -        |
| Irregular expenditure awaiting approval                  | <u>243 758</u> | <u>-</u> |

Recoverability of all irregular expenditure will be evaluated by Council in terms of section 32 of MFMA. No steps have been taken at this stage to recover any monies.

**37.5 Material losses**

**Electricity distribution losses**

|  |           |           |
|--|-----------|-----------|
| - Units purchased (Kwh)                | 6 160 162 | 6 102 190 |
| - Units lost during distribution (Kwh) | 1 057 303 | 1 068 828 |
| - Percentage lost during distribution  | 17.16%    | 17.52%    |

**Water distribution losses**

|  |   |   |
|--|---|---|
| - Kilo litres disinfected/purified/purchased | - | - |
| - Kilo litres lost during distribution       | - | - |
| - Percentage lost during distribution        | - | - |

Own consumption is allocated to departments but do not form part of revenue.  
Bulk water metres will be installed at boreholes to determine water distribution losses in future.

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|---|---|---|
| <b>38 Additional disclosures in terms of the Municipal Finance Act</b>  |   |   |
| <b>38.1 Contributions to local organised government - [MFMA 125(1)(b)] - SALGA Contributions</b>  |   |   |
| Opening balance   | 700 000   | 300 000   |
| Council subscriptions   | 500 000   | 400 000   |
| Amount paid - current year  | 25 000  |   |
| <b>Balance unpaid (included in creditors)</b>   | <u>1 175 000</u>  | <u>700 000</u>  |
| <b>38.2 Audit fees - [MFMA 125(1)(b)]</b>   |   |   |
| Opening balance   | 1 384 615   | 1 644 140   |
| Current year audit fee  |   |   |
| External audit - Auditor General<br>Audit Committee   | <div style="border: 1px solid black; width: 100px; height: 30px; margin: 0 auto;">-</div> | <div style="border: 1px solid black; width: 100px; height: 30px; margin: 0 auto;">-</div> |
| Amount paid - current year  | 1 000 952   | 259 525   |
| Amount paid - previous years  | -   | -   |
| <b>Balance unpaid (included in creditors)</b>   | <u>383 663</u>  | <u>1 384 615</u>  |
| <b>38.3 VAT - [MFMA 125(1)(b)]</b>  |   |   |
| Opening balance   | 676 923   | 216 669   |
| Amounts received - current year   | 1 635 179   | 1 635 179   |
| Amounts paid - current year   | (1 174 925)   | (1 174 925)   |
| Amounts received - previous years   |   |   |
| Amounts claimed - current year  |   |   |
| <b>Closing balance - (Payable)/Receivable</b>   | <u>1 137 177</u>  | <u>676 923</u>  |
| Vat in suspense due to cash basis of accounting   |   |   |
| Input vat   | 1 614 241   | 1 444 789   |
| Output vat  | (817 750)   | (767 865)   |
| Claimable   | <u>796 491</u>  | <u>676 923</u>  |
| Vat is payable/receivable on the cash basis. Vat is only paid over to SARS once cash is received from debtors and only claimed from SARS once payment is made to creditors. |   |   |
| <b>38.4 PAYE, SDL and UIF - [MFMA 125(1)(b)]</b>  |   |   |
| Opening balance   | -   | -   |
| Current year payroll deductions and Council Contributions   | 3 327 768   | 3 362 415   |
| Amount paid - current year  | 3 327 768   | 3 362 415   |
| <b>Balance unpaid (included in creditors)</b>   | <u>-</u>  | <u>-</u>  |

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|--|-----------|-----------|
| <b>38.5 Pensions and Medical Aid Deductions - [MFMA 125(1)(b)]</b> |           |           |
| Opening balance  | -         | -         |
| Current year payroll deductions and Council Contributions          | 594 468   | 527 753   |
| Amount paid - current year   | 594 468   | 527 753   |
| <b>Balance unpaid (included in creditors)</b>                      | <u>-</u>  | <u>-</u>  |

|  |  |  |
|--|--|--|
| <b>38.6 Councillor's arrear consumer accounts - [MFMA 125(1)(b)]</b>               | <b>Outstanding<br/>more than 90<br/>days</b> | <b>Outstanding<br/>more than 90<br/>days</b> |
| The following councillors had arrear accounts for more than 90 days as at 30 June: |  |  |
| R L Davids   |  | 4 406  |
| JS Beukes  | 2 569  |  |
| E Vermeulen  |  | 7 160  |
| <b>Total Councillor Arrear Consumer Accounts</b>                                   | <u>2 569</u>                                 | <u>11 566</u>                                |

**38.7 Regulation 36(2) - Details of deviations approved by the Accounting Officer in terms of Regulation (36)(1)(a) & (b)**

|        | Single<br>Supplier<br>R | Sec 35<br>R | Emergency<br>R | Total<br>R |
|--------|-------------------------|-------------|----------------|------------|
| Jul-11 |                         |             |                |            |
| Aug-11 |                         |             |                |            |
| Sep-11 |                         |             |                |            |
| Okt-11 |                         |             |                |            |
| Nov-11 |                         |             |                |            |
| Des-11 |                         |             |                |            |
| Jan-12 |                         |             |                |            |
| Feb-12 |                         |             |                |            |
| Mar-12 |                         |             |                |            |
| Apr-12 |                         |             |                |            |
| Mei-12 |                         |             |                |            |
| Jun-12 |                         |             |                |            |

**38.8 No declaration by suppliers as required in Section 13(c) of the Supply Chain Management Regulations**

The contract values of suppliers who did not indicate on the registration forms that members are in service of the state in the previous twelve months are as follows:  
R 30 000 - R 199 999  
Greater than R 200 000

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**2014**                      **2013**  
**R**                                      **R**

**38.9 Budget: Non Compliance with Sec 29 and Sec 71**

No unforeseen and unavoidable expenditure was incurred.

**39 Capital Commitments**

**Commitments in respect of capital expenditure**

Approved and contracted for:

Infrastructure

Intangible assets

12 098 528                      -

12 098 528

The expenditure will be financed from:

Government Grants

12 098 528                      -

**40 Retirement Benefit Information**

The Cape Joint Pension Fund is a multi- employer plan. This means that there are multiple local authorities that participate in the fund. In terms of GRAP 25, multi-employer plans are defined benefit plans. GRAP 25 also states that when sufficient is not available to apply defined benefit accounting for a multi-employer plan, an entity will account for the plan as a defined contribution plan.

The Municipality requested detailed employee and pensioner information as well as information on the Municipality's share of the Fund's assets from the Fund administrator. The Fund administrator confirmed that the assets of the Fund are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP 25.

As part of the Municipality's process to value the defined benefit liability, the Municipality requested pensioner data from the Fund administrator. The Fund administrator claims that the pensioner data is confidential and was not willing to share the information with the Municipality. Therefore the Municipality was unable to calculate a reliable estimate of the accrued liability.

**Cape Joint Pension Fund**

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2012 revealed that the Fund is in sound financial position.

**Defined Contribution Funds**

Council contribute SALA Pension Fund and SAMWU National Provident Fund which are defined contribution funds. Current contributions by Council are charged against expenditure on the basis of current service cost.

**41 Financial Risk Management**

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

**(a) Foreign exchange currency risk**

The Municipality does not engage in foreign currency transactions.



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**(b) Price risk**

The municipality is not exposed to price risk.

**(c) Interest rate risk**

As the municipality has significant interest bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The Municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority interest bearing liabilities.

The Municipality did not hedge against any interest rate risk during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follows:

1% (2012 - 1%) Increase in interest rate

0.50% (2012 - 0.50%) Decrease in interest rate

**2014**  
R

**2013**  
R

**(d) Credit risk**

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debt. Trade debtors comprise of a large number of ratepayers dispersed across different sectors and geographical areas. On-going credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due to the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply.

All rates and services are payable within 30 days from invoice date. Refer to notes 18 and 19 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

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**2014**  
**R**                      **2013**  
**R**

No Receivables are pledged as security for financial liabilities.

Due to the short term nature of receivables the carrying value disclosed in note 18 and 19 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rates plus 1 where applicable.

|  | <b>2014</b> | <b>2014</b> | <b>2013</b> | <b>2013</b> |
|--|-------------|-------------|-------------|-------------|
|  | <b>%</b>    | <b>R</b>    | <b>%</b>    | <b>R</b>    |
| <b>The provision for bad debts could be allocated between the different classes of debtors as follows:</b> |             |             |             |             |
| <u>Non exchange receivables</u>  |             |             |             |             |
| Rates  | 10.00       | 1 177 370   | 10.00       | 1 047 661   |
| <u>Exchange receivables</u>  |             |             |             |             |
| Service charges  | 90.00       | 10 596 332  | 90.00       | 9 428 950   |
|  |             | 11 773 702  |             | 10 476 612  |

**Bad debts written off per debtor class:**

|                             |  |          |          |
|-----------------------------|--|----------|----------|
| <u>Exchange receivables</u> |  |          |          |
| Service charges             |  | (30 562) | (13 680) |

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposures are disclosed below.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectations of counter party default.

Long term receivables, Receivables from exchange transactions and Receivables from non-exchange transactions are individually evaluated annually at year end for impairment.